



Director of
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CHINA: Political Drive Against Taiwan

China has intensified its "united front" campaign against Taiwan and has forced the government there to go on the defensive. The move is part of China's attempt to capitalize on the increased sense of political isolation in Taipei since the normalization of US-China relations. [REDACTED]

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The campaign was outlined last month in a New Year's appeal to Taiwan for reconciliation. The message called for negotiations to end the military confrontation in the Taiwan Strait, the establishment of postal and telecommunications connections and trade ties, and the facilitation of travel between Taiwan and the mainland. It also pledged to respect the economic and social status quo on the island. To back up its appeal, China unilaterally ended its propaganda leaflet shelling of the Taiwan-held offshore islands, permitted telephone and telegraph services to Taiwan, and allowed the use of passports bearing Taiwan's visas. [REDACTED]

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//Taiwan, however, has rejected all these proposals and at this stage has been made to appear intransigent. Over the past year--beginning before Sino-US normalization--Taiwan has made a few minor concessions on nonofficial contacts between individuals on Taiwan and the mainland, but is unlikely soon to go further. [REDACTED]

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//Contacts with China too soon might raise questions about Taipei's resolve to maintain its claim to sovereignty and raise doubts about its economic future. Moreover, the mainlander-dominated Kuomintang probably is aware that ethnic Taiwanese politicians and businessmen fear that the mainlanders might attempt to secure their future political domination by arriving at a modus vivendi with China. Such a decision could dash Taiwanese hopes for a slice of national political power and cause a reaction among those, and there are probably many, who believe that in the long run Taiwan should be an independent nation.// [REDACTED]

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USSR: Hard Currency Debt

25X1 [redacted]
25X1 [redacted] *we have reduced our estimates of*
25X1 *the USSR's net hard currency debt from \$16 billion to*
\$11 billion. [redacted]

25X1 The revised estimates do not change our perception of the USSR's financial position. Most of the reduction stems from a revised treatment of CEMA Bank liabilities, which are now excluded from the Soviet debt. General concern over Soviet borrowing in 1975 and 1976 stemmed more from the rate and manner in which the Soviets increased their debt than from the absolute level. Over the past two years, the USSR has substantially improved its payments position; the current account has been brought into surplus by stepped-up oil exports, a slowing of import expansion, and large sales of arms and gold. The USSR markedly improved its credit rating with Western bankers as the growth of its hard currency debt slowed, especially the portion depending on commercial bank financing. [redacted]

25X1 The Soviets should be able to handle this debt through 1980 without threatening priority imports. Thanks to the conservative financial policy of the past two years, which included substantial Eurodollar loan prepayments and refinancing, debt service should require a lesser portion of hard currency revenues. Soviet financial assets in the West stand at an alltime high. Furthermore, the Soviets have ample borrowing capacity for the near term. At the end of 1978, Western governments had committed nearly \$10 billion to finance future exports to the USSR, and another \$4 billion was available through unused general lines of credit from commercial banks. [redacted]

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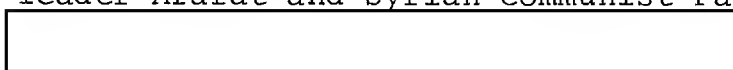
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USSR-SYRIA: Gromyko Visit

Soviet Foreign Minister Gromyko arrived in Damascus on Saturday for a previously unannounced three-day visit. His visit is probably intended to exploit Syrian opposition to the Egyptian-Israeli treaty and to improve bilateral relations, which have been under a strain in recent months. So far, Gromyko has conferred twice with Syrian President Assad and with Palestine Liberation Organization leader Arafat and Syrian Communist Party officials.

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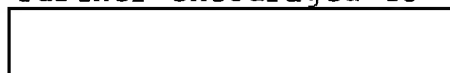
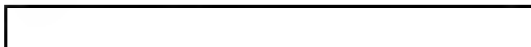
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GUATEMALA: Assassination

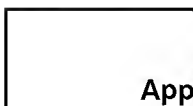
//The assassination last week in Guatemala of prominent leftist politician Manuel Colom Argueta typifies the rising political violence under President Lucas' eight-month-old administration. Colom became a credible threat to the ruling military-dominated coalition when the government recently registered his party; its registration had been denied for years. Many Guatemalans will read his murder as further substantiation of rumors that the government is behind the activities of the Secret Anti-Communist Army (ESA), a vigilante group that targeted many leftists for elimination last year. Lucas is increasingly viewed as incompetent and unless he can take some effective action on the terrorist problem, radicals on both the left and right will be further encouraged to use violence for their own ends.//

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EC: Agricultural Negotiations

//The EC agriculture ministers begin an intensive effort today to resolve their differences over the Common Agricultural Policy. Among other issues, they will consider a controversial EC Commission proposal for a general freeze on farm support prices. The freeze is staunchly supported by the British, who have been insisting on agricultural reform as a way of reducing Britain's net contribution to the EC budget. If the ministers fail to agree this week, their agreement in principle on other agricultural issues--which allowed the new European monetary system to start two weeks ago--might fall apart. Tensions flowing from the UK and Italian Government difficulties and from the coming direct elections to the European Parliament would add to the crisis atmosphere, possibly making EC approval of the Multilateral Trade Negotiations accords, scheduled for next week, more difficult.//

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SPECIAL ANALYSIS

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ARGENTINA: Government Strengthened, But Beset by Problems

The government headed by President Videla and a three-man military junta has been strengthened by recent high-level Army command changes and by the Vatican's agreement in late January to mediate the Beagle Channel dispute with Chile. Even so, uncertainty over the outcome of the mediation effort, as well as unchecked inflation--which may provoke labor unrest--could create serious stresses within the government in the next few months.

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In December, when Argentina and Chile seemed close to hostilities over the Beagle Channel, Videla's handling of the situation set off a spate of coup rumors. Since then, Army Commander Viola has neutralized some of the government's harshest critics in the armed forces. First Corps Commander General Suarez Mason, an outspoken critic of the government, was named Army chief of staff--thus depriving him of a sensitive field command and placing him under the close scrutiny of General Viola. Two of the four corps commanders are now considered Videla-Viola loyalists. Another critic, Major General Santiago Omar Rivero, was reassigned to the Inter-American Defense Board. Further appointments have tightened Viola's control of key operational units.

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Although the changes strengthen Viola's hand as well as Videla's, the Army Commander is not a rival for power. He has privately announced his intention to retire from public life at the end of this year and in recent months has been the President's strongest supporter. This was particularly true in December when

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hawkish became increasingly impatient with Videla's efforts to seek a negotiated settlement and strongly favored a military solution.

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For the time being, at least, Videla's approach has been vindicated. It averted war with a usually friendly neighbor that could have poisoned bilateral relations for generations. On the other hand, the mediation process, which will probably begin formally next month in Rome, is likely to be protracted, and a breakdown in the talks or an unsatisfactory outcome for the Argentines could pose dangers for Videla. [REDACTED]

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In an apparent effort to disarm his opponents, Videla has attempted to put the best face on the mediation. Government officials have apparently led military officers to believe that the Papal good offices have overcome Chilean intransigence and that Argentina's territorial aspirations will be respected. They also have averred that Chile is prepared to renegotiate the World Court's arbitral award of the three Beagle Channel islands; this seems most unlikely because Chile has shown little tractability on any territorial issue. [REDACTED]

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A compromise of some sort is the only realistic solution, but it would be likely to fall far short of the Argentine Government's inflated assurances. Should the mediation results be unacceptable to the military, or should the talks break down, Videla will come under severe criticism for not having taken military action in December. His failure to order the seizure of some of the disputed islands could still ultimately cost him his job. [REDACTED]

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Another and perhaps more immediate problem for Videla is the economy. For the past three years, Argentina has had the world's highest rate of inflation--170 percent in 1978 and 21.2 percent for the first two months of this year. The depressed level of real wages has made organized labor increasingly restive. Low consumer demand and concern that tariff reductions enacted earlier this year will disrupt Argentina's industrial growth and cause unemployment are prompting some business leaders to cooperate with labor in an attempt to force changes in economic policies. Some military officers may be encouraging these efforts. [REDACTED]

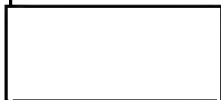
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Videla's continued support of controversial Economy Minister Martinez de Hoz could trigger a general strike in the next month or so. General Viola is confident that

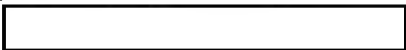
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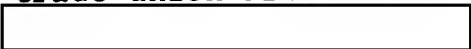
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the government can contain any labor unrest, but strong repressive measures against union activists will worsen Argentina's reputation as one of the foremost violators of human rights in South America and further mobilize world opinion against the government. 

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Although Videla seems inclined to grant Martinez de Hoz more time to rein in inflation, the combined pressure of labor and industry could force the Economy Minister's resignation in the next few months. Such a change could well do more harm than good because the absence of any well thought out alternative to present policies would exacerbate economic uncertainty and probably further retard recovery. 

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A new trade union law now in preparation may help the government ride out the storm. The law, which may be promulgated within 90 days, could add a further measure of stability by granting greater trade union freedom and promoting collective bargaining. 

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